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SUMMER ROUND UP 2017

A Taylored Money guide
in association with Taylor & Taylor

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The children are back at school, it's getting darker and you're starting to think about the central heating. Summer is drawing to a close and we thought it might be interesting to reflect on some key events over the last few months – and see if they give us an idea of what might happen in the run up to Christmas…

Stock market figures quoted were accurate as at the end of August for all the markets mentioned.

North Korea

The tensions between North Korea and the rest of the world continue to escalate, with Pyongyang conducting its most powerful nuclear test yet over the first weekend in September. In recent weeks, North Korea has threatened the US territory of Guam and fired a rocket over Japan's Hokkaido Island (roughly 800 miles north of Tokyo).

So far, the response of world leaders and the United Nations has been predictable: outright condemnation and the threat of ever-greater economic sanctions. To date – as we outline below – world stock markets have not been affected by the tensions, but President Trump is now threatening that the US will stop trading with any country 'doing business' with North Korea.

In theory, that could mean a halt to US trade with China. China has supported UN economic sanctions against North Korea: it recently suspended imports of coal, iron and seafood, but remains the key economic partner for the rogue nation. Total trade between the US and China topped $650bn last year, with China exporting around $480bn worth of goods to the USA. With worries about escalating debt and an industrial slowdown in China, any lessening of trade with the US would have potentially serious consequences – not just for China, but for the wider world economy.

World Stock Markets

Given all the uncertainty, how have the world's major stock markets performed in the first eight months of the year? By and large, the answer is 'well'. The UK's FTSE-100 index of leading shares opened the year at 7,143 and closed August at 7,431: that is a modest gain of 4% but given all the uncertainty surrounding Brexit, a gain nevertheless. The two major European indices, Germany and France, are both up by 5%, whilst in America the Dow Jones index is up by 11% at 21,948. The Dow clearly likes what it sees of President Trump's economic policies.

All four of the major markets in the Far East are up this year, two of them significantly. China's Shanghai Composite index is up by 8% for the year, ending August at 3,361, while Japan's Nikkei Dow – not surprisingly with North Korean rockets whizzing overhead – has recorded a more modest gain of 3%. The stars of the show, however, are the markets in Hong Kong and South Korea, the latter despite the high profile corruption case involving the billionaire heir to the Samsung dynasty. Hong Kong's Hang Seng index is up 27% so far this year and stands at 27,970, whilst the South Korean index has recorded a gain of 19%.

It is a similar story on two of the world's three major emerging markets. The Indian stock market is also up 19% this year, whilst Brazil's stock market – living proof that 'markets can fall as well as rise' over the past few years – is currently in a good mood and is up 18% for the year, having shot up 7% in August alone. It has been a completely different story for the Russian stock market, however: despite rising 5% in August, the market is down 9% for the year as a whole as sanctions continue to be imposed in retaliation for the invasion of the Ukraine.

Can Theresa May survive?

On March 29th, Theresa May – having long repeated the mantra that 'Brexit means Brexit' – triggered Article 50 of the Lisbon Treaty and gave two years' notice of Britain's intention to leave the EU. At the time, her approval ratings could not have been higher and the temptation to call a General Election – and to have her own mandate – eventually proved too much. The contrast between May and Labour leader Jeremy Corbyn could not have been greater and Conservative strategists framed the election as a personality contest: Theresa May's cabinet and Theresa May's local candidates against Corbyn and his hopelessly outdated plans to tour the country speaking to people.

"Don't make it a personality contest if you don't have one," former UKIP leader Nigel Farage said, adding that, "the more people saw of Theresa May, the less they liked her." In the event, the Election – held on June 8th – resulted in a hung parliament as Theresa May's anticipated majority of 100 seats evaporated in front of her eyes. She remains in power – supported by Ulster's Democratic Unionists – and will still be leader of the Conservative party at their conference in early October.

She will make a speech and receive the customary standing ovation – but behind the scenes, the plots and counter-plots will be hatched. Theresa May has said that she has learned from her mistakes and wants to fight the next General Election as leader. This still appears highly unlikely but the longer she stays in power, the more it reduces the chances of the David Davis/Boris Johnson generation and makes a younger successor more likely.

Student loans: the next mis-selling scandal?

During the Election campaign, Jeremy Corbyn famously promised to abolish student loans. Was it costed? Was it affordable? It didn't matter, as many seats with a large proportion of students voted Labour and cut sharply into Theresa May's majority.

At the end of the summer thousands of new students will have started university. Three or four years hence, many of them will be graduating with debts of anywhere from £50,000 to £70,000 – and facing an interest rate branded 'far too high' by virtually every expert. Could student loans be the next mis-selling scandal?

Without going into complicated mathematics, a student who has graduated with a debt of £50,000 and is earning £30,000 a year will make his or her contractual repayments under the student loans scheme – but still see the debt increasing. Can that be right? Should your debt continue to increase if you meet your contractual obligations? The Financial Conduct Authority would have plenty to say if it were any other scheme: no wonder 'student loans' and 'mis-selling' are increasingly heard in the same sentence.

In the meantime, it is hardly surprising that increasing numbers of young people are forsaking the delights of freshers' week and the student union for vocational training and modern apprenticeships. 'Earn while you learn' rather than a lifetime of debt. The Government has committed itself to 3m apprenticeships by the year 2020. It may be that the student loans regime unwittingly does much more to bring that about than supposedly proactive measures like the apprentice levy.

The Brexit negotiations

During the Brexit negotiations is has been reported that Michel Barnier, the EU's chief negotiator in the Brexit talks, "wanted to teach the British people and others what leaving the EU means." He's also criticised the UK for "demanding the impossible" and stated that "no decisive progress" has been made in the talks to date. David Davis, the UK's man in charge of leaving the EU, has been rather more optimistic, although he did take time towards the end of the Summer to specifically deny the report in the *Sunday Times* that a €50bn divorce settlement had been reached.

Just over five months on from the triggering of Article 50, the simple fact is that very little substantive progress has been made. Talks continue, and hopefully more progress can be made after this month's German elections, when Angela Merkel is likely to win a fourth term as Chancellor. But do not bet against the talks going right down to the wire: the UK is due to leave the EU on March 29th 2019 – expect to see the European heads of state meeting on March 27th and 28th 2019…

So far the gloomy pre-referendum predictions have not been borne out: the UK economy has generally fared well over the last 12 months, with the stock market up and unemployment down to the lowest level for 42 years. Whether this will continue indefinitely if the Brexit negotiations do not show signs of progress remains to be seen: business values certainty above all things and a breakdown in the negotiations – especially if it were coupled with another general election – could have far reaching consequences.

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Ten Years On: have we learned anything?

"Those that do not learn from history are doomed to repeat it…" We have just had the tenth anniversary of the start of the global financial crisis: have we learned anything, or will we one day repeat the mistakes?

The crash began with problems in the mortgage market: it escalated to reveal billions of dollars' worth of lending that would never be repaid. It exposed financial mismanagement and incompetence on an epic scale. Hopefully, central banks have learned their lesson, but the simple fact is that banks are *still* being bailed out. What was the headline in the *Guardian* less than two months ago? 'Markets relieved after Italy agrees €17bn bank rescue.'

Banks exist to lend money: human nature means that people frequently need to borrow money. You regulate supply, but you cannot regulate demand. And with banks – ultimately – driven by the profit motive then there will always be a lender somewhere who will meet a customer's demand.

But apparently there is no need to worry about the Italian banks, Chinese debt or politicians who will turn a blind eye if it means being re-elected. At the beginning of July, Janet Yellen, Chair of America's Federal Reserve (and the US equivalent of the Governor of the Bank of England) said that she did not expect there to be "another financial crisis in our lifetime."

Can we take comfort from that or, with Janet Yellen's boss promising further banking deregulation, is it the equivalent of Michael Fish's weather forecast in October 1987, just before the south of England experienced a hurricane?

In between North Korea, the Brexit negotiations and the banking industry, the world remains a changeable place. Should you have any questions on what it all means for your savings and investments then rest assured that – as always – we are just a phone call or an email away.

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